Mixed Eco Signals Unlikely to Alter Tomorrow's Fed Decision

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

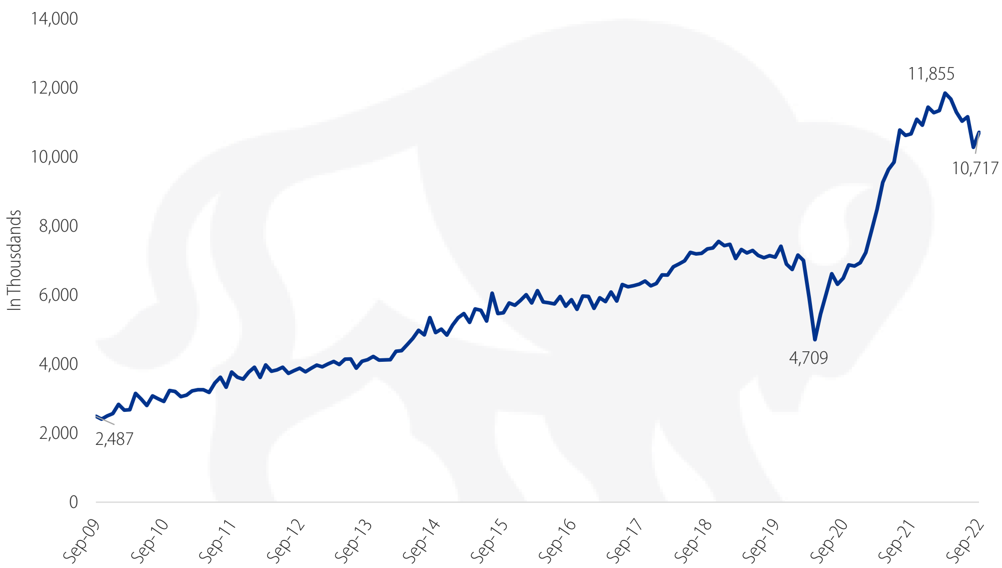
Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

This morning's economic releases show solid improvement in factory prices and supply chains, as well as a stubbornly resilient labor market. The Job Openings and Labor Turnover Survey (JOLTS) may have been the biggest forecast miss of the morning as job openings actually increased by more than +660k in September to 10.717 million. The median forecast had indicated a drop of -300k to 9.75 million. With approximately 1.8 posted jobs now available for every job-seeker, and Fed officials concerned about wage inflation, the FOMC will take no comfort in the growing jobs mismatch.

Committee members will view the October ISM survey as a mixed bag with the overall manufacturing index slipping from 50.9 to 50.2, the lowest reading since May 2020, while several key components showed improvement. The ISM prices paid index entered contraction territory for the first time since May 2020 at 46.6. This below-50 reading indicates that a majority of U.S. purchasing managers are finally experiencing lower input prices.

With approximately 1.8 posted jobs now available for every job-seeker, and Fed officials concerned about wage inflation, the FOMC will take no comfort in the growing jobs mismatch.

Job Opening and Labor Turnover Survey (JOLTS)



Source: Bureau of Labor Statistics

The employment index, which has been oddly volatile from month-to-month, stepped up from 48.7 to 50.0 in October. This suggests a slightly better labor outlook among factory managers, although finding workers remains a major challenge.

Once you get past the headline manufacturing index hovering just above the 50 mark, the rest of the ISM report is fairly upbeat. Supply seems to be returning and input prices are no longer moving higher.

The supplier delivery index (which is counterintuitive in that a lower number indicates faster delivery times) improved from 52.4 to 46.8, the lowest in 13 years, while the order backlog index (same story) improved from 50.9 to 45.3; both indicate continued untangling of the supply chain knot.

The new orders index rose from 47.1 to 49.2, while the production index climbed from 50.6 to 52.3. These tepid readings mostly reflect the recent shift in consumer spending from goods to services.

Once you get past the headline manufacturing index hovering just above the 50 mark, the rest of the ISM report is fairly upbeat. Supply seems to be returning and input prices are no longer moving higher. This is just one piece to the economic puzzle, but the ISM survey is broad *and timely*, and if you squint a bit there's clear improvement on the horizon.

Fed officials will be encouraged by the ISM report and discouraged by the resiliency of the JOLT survey, but neither will impact the near-certain decision to hike another 75 bps tomorrow.

Fed officials will be encouraged by the ISM report and discouraged by the resiliency of the JOLT survey, but neither will impact the near-certain decision to hike another 75 bps tomorrow. The question is - *when will the Fed signal a pivot in their policy stance?* Tomorrow's rate hike announcement may prove to be the last three-quarter point increase of the cycle, but the tightening won't end until the rate of inflation moves sustainably lower.

Market Indications as of 12:15 P.M. Central Time

DOW	Down -80 to 32,653 (HIGH: 36,800)
NASDAQ	Down -63 to 11,925 (HIGH: 16,057)
S&P 500	Down -15 to 3,857 (HIGH: 4,797)
1-Yr T-bill	current yield 4.62%; opening yield 4.56%
2-Yr T-note	current yield 4.53%; opening yield 4.49%
3-Yr T-note	current yield 4.47%; opening yield 4.44%
5-Yr T-note	current yield 4.25%; opening yield 4.24%
10-Yr T-note	current yield 4.05%; opening yield 4.05%
30-Yr T-bond	current yield 4.12%; opening yield 4.17%